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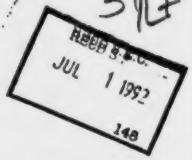


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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 15(d) of
the Securities Exchange Act of 1934

For the quarter ended March 31, 1992

LQ2-2260

Commission File No. 33-21039

**NORTH AMERICAN ENVIRONMENTAL GROUP, INC.**
(Exact name of registrant as specified in its charter)

| Delaware | 51-0307590 |
|---|---|
| State or other jurisdiction of incorporation or organization | I.R.S. Employer Identification No. |

Pointe South Executive Building, 5201 South Mission Road,
Mt. Pleasant, Michigan 48804
(Address of principal executive offices) (zip code)

Registrant's telephone no., including area code: (517) 773-6449

No Change
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes ___ No. X

(2) Yes X No. ___

Common Stock outstanding at June 15, 1992 - 11,863,338 shares of $.01 par value common stock.

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## PART I

ITEM 1 Financial Statements.

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of the Company, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the financial position of the Company as of March 31, 1992 have been made.

ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Background

The Company, together with its wholly-owned subsidiary Inplant Bioremedial Services, Inc. ("Inplant"), are newly formed development stage companies which have been formed to provide environmental services, primarily by developing and marketing bioremediation and enzyme technologies to clean hydrocarbon (petroleum) contaminated soils. The Company employs a proprietary method of bioremediation (the "Biotreat System") for on-site destruction of soil contaminants using biological agents to effect oxidation. Inplant has successfully completed a pilot test program using this system at Camp Pendelton Marine Base in Southern California. The Company also has exclusive licensing rights to develop and market certain additional enzyme technologies utilized for treating contaminated soils.

From inception through the third quarter of 1991, the Company engaged in no operating business other than seeking potential business combinations. As a consequence of the acquisition of North American Environmental Corporation in November, 1991, the business of the Company has changed. Past results of operations, therefore, are not indicative of the results of operations that can be expected in the future. Inasmuch as the Company and Inplant remain in the development stage, management can provide no assurances as to the results of operations in the future.

On or about December 31, 1991, the Company entered into an Agreement (the "Agreement) with Dwight Mott, 490960 Ontario Limited, 559741 Ontario Inc. and Canflow Services Inc. (the "Canflow Shareholders" or the "Canflow Companies"), whereby in exchange for the Company issuing 1,000,000 shares of Common Stock to the Canflow Shareholders, it would acquire all of the outstanding shares of 490960 Ontario Limited, 559741 Ontario Inc. and Canflow Services Inc. During May, 1992, the Company elected to terminate the Agreement and forego acquisition of the Canflow Companies.

In March, 1992, the Company, through its wholly owned subsidiary, Inplant, was awarded a contract by the United States Army Corps of Engineers to perform bioremediation services on approximately 1,100 cubic yards of soil contaminated with fuels and petroleum hydrocarbons at the Los Alamitos Air Force Reserve Center in Los Alamitos, California. The total contract price of the project was $49,296. Work commenced on or about May 7, 1992 and was completed on June 5, 1992.

On March 26, 1992, the Company entered into a Teaming Agreement (the "Agreement") with Chemical Waste Management, Inc. ("Chem Waste"). The terms of the Agreement provide for the Company to be specified as sub-contractor to Chem Waste on a project-by-project basis to perform bioremediation services. It is contemplated that the services to be provided by the Company include will assisting in the preparation of proposals and providing equipment, services and support for each awarded project. To date, however, no project has been identified in which the Company will participate and as contemplated by the Teaming Agreement.

On or about May 22, 1992, the Company, through a newly formed subsidiary, North American Environmental Group of Illinois, Inc. entered into an Agreement with Universal Remediation Services, Inc. ("Universal") relating to the marketing of the Company's environmental services in the State of Illinois. Pursuant to the agreement, Universal will market the Company's technologies, primarily in the State of Illinois, in exchange for the right to receive a share of profits derived by the Company for projects referred to it by Universal and/or in the State of Illinois. In consideration of this venture, Universal provided the Company with an advance of $250,000 in the form of a convertible debenture. The debenture is payable in two years (with payments under the agreement to reduce the outstanding principal balance) unless sooner redeemed or converted by Universal. The debenture is convertible during the second year at Universal's option into shares of the Company's common stock based on the outstanding balance due to Universal divided by the average trading price of Company stock during the ten days preceding conversion. Universal has the right to participate in certain management decisions affecting projects undertaken by the Company's subsidiary.

## Results of Operations

Results of operations for the quarter ended March 31, 1992 reflected an operating loss of $442,366, which consisted principally of salaries of $24,999; legal and accounting of $46,927 and miscellaneous expenses which included administration, travel, and fees of $370,440. Until the Company's operations can generate material revenues, if at all, it is expected that material losses will continue to be incurred.

## Liquidity and Capital Resources

Prior to the acquisition of North American Environmental Corporation, the Company's only assets consisted of a minimal amount of cash from its initial capitalization less: (i) amounts expended for offering costs and professional fees incurred in connection with the Company's reporting obligations under the Securities Exchange Act of 1934; (ii) expenses incurred in the identification and review of potential business opportunities; and (iii) certain other matters as deemed appropriate by the Company's Board of Directors.

On September 12, 1991, in a private transaction, the Company issued and sold the equivalent of 1,500,000 shares of Common Stock to two Canadian investors for a purchase price of $75,000.

From August 12, 1991 through October 15, 1991, the Company borrowed the sum of $175,000 from a total of nine (9) individuals. The Company provided these individuals with Promissory Notes (the "Promissory Notes") which called for repayment upon demand commencing one (1) year after execution with interest at the rate of ten (10%) percent per annum, paid on a quarterly basis. Subsequently, during the first quarter of 1992, the Company issued 175,000 shares of restricted Common Stock in exchange for cancellation of the Promissory Notes.

During the first quarter of 1992, the company offered and sold 2.5 Units in a private placement for the aggregate sum of $250,000. Each Unit consisted of 33,333 restricted shares of the Company's Common Stock, as well as 33,333 Class C Warrants. Each Warrant entitles the holder to purchase one share of the Company's Common Stock at the exercise price of $7.00 per warrant. The Class C Warrants expire on March 1, 1997.

By virtue of the acquisition of North American Environmental Corporation, the Company has acquired two companies which in the aggregate own assets valued for for financial accounting purposes in excess of $99,999, plus certain valuable technologies, industry goodwill and contract rights. The tangible assets acquired consist of cash, accounts receivable, stock subscriptions receivable and a majority interest in a licensing agreement for the development of a proprietary enzyme technology used in cleaning contaminated soils.

## PART II

ITEM 1 Legal Proceedings.

None.

ITEM 2 Changes in Securities.

None.

ITEM 3 Defaults Upon Senior Securities.

None.

ITEM 4 Submission of Matters to a Vote of Security Holders.

None.

ITEM 5 Other Information.

In April, 1992, the Company entered into an investment banking/financial advisory agreement with SPH Investments Corp. ("SPH") whereby SPH will render financial advisory services in order to seek on behalf of the Company a business combination that would facilitate listing the Company's securities on a securities exchange such as the National Association of Securities Dealers Quotation ("NASDAQ") System (the "Transaction"). Upon completion of a transaction, SPH, as compensation, will receive the lesser of (i) 450,000 shares of the Common Stock of the Company or (ii) five (5%) percent of the consideration paid by the Buyer.

The company has been advised that in June, 1992, certain shareholders of the Company executed Preferred Stock Exchange Agreements (the "Agreements") with Mail Boxes Coast to Coast, Inc. ("MBCC"), a publicly traded Delaware Corporation and Daily Mail, Inc., a Delaware Corporation, a wholly owned subsidiary of MBCC (collectively, the "Parties"). The outstanding common stock of MBCC is presently listed on NASDAQ. Pursuant to the Agreements a total of 10,408,333 shares of the Company's Common Stock owned by these shareholders will be exchanged for 62,337 shares of Series B $3.50 Convertible Preferred Stock of Daily Mail, Inc. upon the closing thereof. Closing is contingent upon the completion of certain additional due diligence. Upon closing of the Agreements, MBCC will own in excess of ninety (90%) percent of the Company's Common Stock. Closing on the Agreements is schedule to be completed by mid-June,

1992 and although the Parties believe Closing will occur, there can be no assurances to that effect.

The securities of MBCC are presently listed on NASDAQ. MBCC has been informed, however, that its listing application is under review in order to determine whether the company has satisfied, and by virtue of this transaction continues to satisfy the appropriate NASDAQ listing standards. Until such review is completed, there can be no assurances that MBCC will retain its NASDAQ listing.

ITEM 6. Exhibits and Reports on Form 8-K.

(a) (i) Marketing Agreement between North American Environmental Group of Illinois, Inc. and Universal Remediation Services, Inc.

(ii) Investment Advisory Agreement between the Company and SPH Investments Corp.

(b) None.

**SIGNATURE**

Pursuant to the requirements of the Secur..ies Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: 4/30/92

NORTH AMERICAN ENVIRONMENTAL GROUP, INC.

BY: _____
President

_____
Chief Accounting Officer

North American Environmental Group, Inc.
(a development stage enterprise)

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NORTH AMERICAN ENVIRONMENTAL GROUP, INC.
(a development state enterprise)

Condensed Consolidated Financial Statements

For The Three Month Periods Ended
March 31, 1992 and 1991

SHOEMAKER AND WILSON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
POINTE SOUTH EXECUTIVE BUILDING
P.O. BOX 444
5201 S. MISSION
MT. PLEASANT, MICHIGAN 48804-0444
(517) 773-6444

To The Board of Directors
North American Environmental Group, Inc.
(a development stage enterprise)
Mt. Pleasant, Michigan

We have compiled the accompanying condensed consolidated balance sheet of North American Environmental Group, Inc., and subsidiaries, (a development stage enterprise) as of March 31, 1992 and the related condensed consolidated statement of operations and deficit accumulated during the development stage and cash flows for the three-month periods ended March 31, 1992 and 1991, and the period from inception (February 18, 1988) through March 31, 1992, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 1991, and the related consolidated statements of operations and deficit accumulated during the development stage, and cash flows for the year then ended (not presented herein); and in our report dated April 14, 1992, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1991 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Shoemaker & Wilson, P.C.
Certified Public Accountants

June 15, 1992

NORTH AMERICAN ENVIRONMENTAL GROUP, INC.
(a development stage enterprise)
Condensed Consolidated Balance Sheet

| Assets | (Unaudited) March 31, 1992 | December 31, 1991 |
|---|---|---|
| Cash | $ 83,107 | $ 78,882 |
| Accrued Interest Receivable | 1,500 | 1,200 |
| Stock Subscriptions Receivable | 10,000 | 60,000 |
| Advances to Related Parties | 12,000 | 54,500 |
| Total Assets | $ 106,607 | $ 194,582 |
| Liabilities and Stockholders' Equity (Deficiency) | | |
| Liabilities | | |
| Notes and Advances Payable -Related Parties | $ 186,703 | $ 84,668 |
| Notes Payable | — | 175,000 |
| Accrued Interest | 4,464 | 10,236 |
| Accounts Payable | 81,183 | 78,956 |
| | 272,350 | 348,860 |
| Minority Interest | 239 | 254 |
| Excess of Subsidiary Interest Over Cost | 4,884 | 5,055 |
| Stockholders' Equity (Deficiency) | | |
| Preferred Stock, 1,000,000 Shares, $.001 Par Value, None Issued | | |
| Common Shares, $.01 Par Value, 20,000,000 Shares Authorized, 11,688,338 Shares Issued and Outstanding | 116,884 | 114,300 |
| Additional Paid In Capital | 464,216 | 41,800 |
| Deficit Accumulated During Development Stage | (751,966) | (315,687) |
| Net Stockholders' Equity (Deficiency) | (170,866) | (159,587) |
| Total Liabilities and Stockholders' Equity | $ 106,607 | $ 194,582 |

See accompanying notes to condensed consolidated financial statements

NORTH AMERICAN ENVIRONMENTAL GROUP, INC.
(a development stage enterprise)
Condensed Consolidated Statement Of Operations

| | Three Months Ended March 31, | | Cumulative from Inception (February 18, 1988) Thru March 31, |
|---|---|---|---|
| | 1992 | 1991 | 1992 |
| Operating Income | $ – | $ – | $ 124,276 |
| Operating Expenses | 442,366 | 299 | 846,105 |
| Net Operating Expenses | (442,366) | (299) | (721,829) |
| Other Income (Expense) | 6,072 | – | 7,272 |
| Write-Off of Prepaid Offering Costs | – | – | (37,854) |
| Minority Interest in Operating Expenses of Subsidiary | 15 | 18 | 445 |
| Net Loss | $ (436,279) | $ (281) | $ (751,966) |
| Net Loss Per Share | $ .0375 | $ – | $ .4461 |

See accompanying notes to condensed consolidated financial statements

NORTH AMERICAN ENVIRONMENTAL GROUP, INC.
(a development stage enterprise)
Condensed Consolidated Statement of Cash Flows

| | Three Months Ended March 31, | | Cumulative from Inception (February 18, 1988) Thru March 31, |
|---|---|---|---|
| | 1992 | 1991 | 1992 |
| Cash Flows From Operating Activities | $ (390,310) | $ (2,249) | $ (647,914) |
| Cash Flows From Investing Activities: | | | |
| Advances to Related Parties | 42,500 | – | (12,000) |
| Cash Flows From Financing Activities: | | | |
| Investment By Minority Stockholders | – | – | 7,500 |
| Proceeds From Notes Payable | – | – | 190,000 |
| Advances From Related Parties | 102,035 | – | 171,703 |
| Issuance of Common Stock | 425,000 | – | 581,100 |
| Prepaid Offering Costs | – | – | (32,282) |
| Payment of Notes Payable | (175,000) | – | (175,000) |
| | 352,035 | – | 743,021 |
| Net Increase (Decrease) in Cash | 4,225 | (2,249) | 83,107 |
| Cash at Beginning of Period | 78,882 | 3,593 | – |
| Cash at End of Period | $ 83,107 | $ 1,344 | $ 83,107 |

See accompanying notes to condensed consolidated financial statements

NORTH AMERICAN ENVIRONMENTAL GROUP, INC.
(a development stage enterprise)
Notes to Condensed Consolidated Financial Statements
March 31, 1992

1. Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

2. Shoemaker & Wilson P.C., the Company's auditors, has performed a compilation of the financial information included herein. Their report on such compilation accompanies this filing.

3. Subsequent Events

On or about May 22, 1992, the Company, through a newly-formed subsidiary, North American Environmental Group of Illinois, Inc., entered into an agreement with Universal Remediation Services, Inc. ("Universal") relating to the marketing of the Company's environmental services in the State of Illinois. Pursuant to the agreement, Universal will market the Company's technologies, primarily in the State of Illinois, in exchange for the right to receive a share of the profits derived by the Company from projects referred to it by Universal and/or in the State of Illinois. In consideration of this venture, Universal provided the Company with an advance of $250,000 in the form of a convertible debenture. The debenture is payable in two years (with payments under the agreement to reduce the outstanding balance) unless sooner redeemed or converted by Universal. The debenture is convertible during the second year at Universal's option into shares of the Company's common stock based upon the outstanding balance due to Universal divided by the average trading price of the Company's common stock during the ten days preceding conversion. Universal has the right to participate in certain management decisions affecting projects undertaken by the Company's subsidiary.

SPH INVESTMENTS, INC.
1411 WALNUT STREET
SUITE 300
PHILADELPHIA, PA 19107

April 20, 1993

North American Environmental Group, Inc.
5201 South Mission
Mount Pleasant, Michigan 48858

ATTENTION: President

Gentlemen:

The purpose of this letter is to confirm the engagement of SPH Investments, Inc. ("SPH") by North American Environmental Group, Inc. (the "Company") to render financial advisory and investment banking services to the Company in connection with the possible sale of the Company or an interest in the Company to a corporation (the "Buyer") whose securities are listed on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), which transaction might take the form of a merger of the Company with, or a sale of all or a substantial portion of its assets or more than 10% of its equity securities to, or an exchange of equity securities by holders of a majority of its outstanding equity securities with, a Buyer (a "Transaction").

SPH will perform such of the following financial advisory and investment banking services as the Company may reasonably request:

(a) SPH will familiarize itself to the extent it deems appropriate and feasible with the business, operations, assets, liabilities, financial condition and prospects of the Company and any prospective Buyer, it being understood that SPH shall, in the course of such familiarization, rely entirely upon publicly available information and such other information as may be supplied by the Company or such Buyer, without independent investigation;

(b) SPH will advise and assist the Board of Directors of the Company (the "Board") in considering any proposed Transaction;

(c) SPH will advise and assist the Board in the course of its negotiation of any proposed Transaction; and

(d) SPH will render such other financial advisory and investment banking services as may from time to time be

The Company shall pay to SPH for its services hereunder a fee equal to the lesser of (i) 450,000 shares of Common Stock of the Company or (ii) five percent of the consideration paid by the Buyer, in each case contingent upon the consummation of a Transaction and, except as otherwise provided, payable at the closing thereof or soon thereafter as practicable.

SPH's engagement hereunder may be terminated by the Company or SPH at any time upon written notice to that effect to the other party; provided, however, that SPH will be entitled to its full fee in the event that any time prior to the expiration of two years after such termination a Transaction is consummated involving a Buyer as to whom SPH had advised the Company or a Buyer that SPH had proposed, or with whom the Board (acting on behalf of the Company) had held discussions regarding a Transaction during the term of SPH's engagement hereunder.

Please confirm that the foregoing is in accordance with your understanding and agreement with SPH by signing and returning to SPH a duplicate of the letter enclosed herewith.

Very truly yours,

SPH Investments, Inc.

By: Stephen P. Harrington
President

Agreed and accepted

NORTH AMERICAN ENVIRONMENTAL GROUP, INC.

By: Thom E. Jacobsen, CEO

## AGREEMENT

AGREEMENT dated as of May 22, 1992 by and between North American Environmental Group of Illinois, Inc., a Delaware corporation with offices at 5201 South Mission, Mount Pleasant, Michigan 48858 ("Sub"), and Universal Remediation Services, Inc., an Illinois corporation with offices c/o Anthony B. Ferraro, Esq., Fulton and Jefferson Building, Suite 300, Chicago, Illinois 60661 ("Newco") and consented to by North American Environmental Group, Inc., a Delaware corporation ("NAE"), North American Technologies, Inc., a corporation incorporated in the Province of Alberta, Canada ("NAT"), and Gold Spinners International, Inc., a Michigan corporation ("GSI"). NAE, NAT and GSI all have offices at 5201 South Mission, Mount Pleasant, Michigan 48858.

## BACKGROUND

NAE is a development-stage company which is licensed to use and which markets certain technologies that are effective in cleaning contaminated soils and in the remediation of certain hazardous and non-hazardous contaminated wastes (the "Business"). Sub is a wholly-owned subsidiary of NAE which has a revocable license from NAE to use and market the "Environmental Technologies" more particularly described in Section 2.1 hereof during the term of this Agreement. Newco has certain contacts and a business presence in the State of Illinois through which it desires to market the Environmental Technologies. NAE has established Sub for

the sole and exclusive purpose of forming a venture (the "Venture") with Newco pursuant to which Sub will conduct the Business in the Territory (herein defined) and all Business referred to it by Newco. Accordingly, the parties desire to enter into this Agreement relating to the marketing and utilization of the Environmental Technologies and the conduct of the Venture formed hereby.

NAT is the majority shareholder of NAE. In consideration of Newco entering into this Agreement, Newco has requested that NAT guarantee Sub's obligations to repay the Debenture (herein defined).

NAT has executed a letter of intent with Mail Boxes Coast-to-Coast, Inc., a Delaware corporation whose shares are publicly traded on the NASDAQ system ("MBCC"). Pursuant to the letter of intent, NAT proposes to sell substantially all of its operating assets to MBCC in return for shares of MBCC which will be then distributed to NAT's shareholders. MBCC will be renamed North American Technologies, Inc. following consummation of the transactions contemplated by the letter of intent. Assuming the transactions contemplated by the letter of intent, shares of "new" NAT will be publicly traded on the NASDAQ system.

1.8 "NAT" shall mean North American Technologies, Inc., an Alberta, Canada corporation, and its successors in interest and assigns of substantially all its assets.

1.9 "Net Profits" shall be defined for purposes of this Agreement according to the following calculation:

1.9.1 Net Profits shall be calculated by deducting Operating Costs and Expenses from Gross Revenues.

1.9.2 "Gross Revenues" means and refers to the gross revenues received by Sub in any form or manner from the Venture.

1.9.3 "Operating Costs and Expenses" means all non-capital costs and expenses incurred by Sub in the conduct of the Venture excluding interest and amounts deductible under Federal income tax law as depreciation and amortization of items, and depletion costs or deductions. Operating Costs and Expenses shall include, but are not limited to, all of the following items paid or incurred by Sub, calculated in accordance with generally accepted accounting principles and procedures consistently applied:

(a) The cost of all direct labor and personnel used in operations hereunder, including costs of direct supervisory personnel who will be charged with the duty of supervising work;

(b) The cost of unemployment insurance and insurance payments as required by law, including the Federal Insurance Contribution Act, Workmen's Compensation Insurance, and Occupational Disease and Disability Insurance;

(c) The cost of all consumed materials and supplies purchased and rental charges for machinery and equipment leased;

(d) The pro-rata cost of all personal property used in connection with operations hereunder, when such personal property has a useful life of not more than one year;

(e) The cost of maintenance and repair of all buildings, fixtures, improvements, installations, machinery, and equipment (surface or subsurface) used by or in connection with the Venture by the Sub;

(f) The cost of all electricity, water and all other utilities used in connection with the Venture;

(g) The cost of research, investigation, Marketing, (as defined in subparagraph (h) below) sampling, analysis, soil drilling and testing;

(h) The costs of "Marketing" that shall be deductible hereunder shall be limited to the reasonable and necessary costs of selling Environmental Applications through unrelated third parties. In addition, the Sub may also deduct or reimburse reasonable and verifiable Marketing expenses related to efforts of its own employees and consultants and those of Newco and Parent.

Sub shall also be entitled to deduct and/or reimburse any commissions paid to unrelated third parties in connection with the procurement of work under this Agreement, so long as such commissions do not exceed the greater of (x) seven and one-half percent (7.5%) of the net revenue or (y) two and one-half percent (2.5%) of the gross revenue from the particular job or project.

(i) The cost of all liability insurance premiums or payments;

(j) The cost of all audits, taxes and assessments, whether now or hereafter provided by law, including but not

restricted to net proceeds taxes, severance taxes, general property taxes, and other taxes;

(k) The costs of any services performed by unrelated third parties under contract with Sub;

(l) All costs of transportation of materials and refined products;

(m) All license fees and costs payable with respect to utilization of the Environmental Technologies;

(n) All administrative, accounting and legal fees relating to the operation and administration of the Venture;

(o) Any and all other mutually agreeable reasonable costs and expenses incurred by the Venture.

1.10 "Newco" shall mean Universal Remediation Services, Inc., an Illinois corporation.

1.11 "Parent" shall mean North American Environmental Group, Inc., a Delaware corporation, together with its parent corporation, North American Technologies, Inc. ("NAT") and all subsidiaries of NAT.

1.12 "Second Convertible Debenture" shall have the meaning set forth in Section 3.2.

1.13 "Sub" shall mean North American Environmental Group of Illinois, Inc., a Delaware corporation.

1.14 "Territory" shall mean the State of Illinois; provided, however, that upon issuance of the Second Convertible Debenture, "Territory" shall mean the States of Indiana and Illinois.

1.15 "Venture" shall mean the marketing and utilization of the Environmental Applications pursuant to this Agreement by Sub and Newco.

**Section 2 - Contributions**

2.1 Contribution by Sub. In consideration of entering the Venture with Newco, Sub shall use its best efforts to employ the Environmental Technologies, which shall consist of the licensed mechanical enzyme technology, known as the ENVIROZME SYSTEM™, and the licensed bioremediation technologies, known as the BIOTREAT SYSTEM™, on a commercial basis within the Territory and outside of the Territory. Sub has obtained from Parent a revocable license to use the Environmental Technologies for the sole purpose of the

Venture. Sub and Parent agree to maintain said license for the term of this Agreement. Sub shall also provide technical assistance with respect to the utilization of the Environmental Technologies in the event that a subcontractor (including Newco) is chosen to operate any job under this Agreement. The proprietary systems, such as the chemicals used in the Environmental Technologies shall, at Sub's option, remain under the physical possession and control of Sub's or Parent's employees, who shall cooperate with the Venture in the commercial utilization of those processes on any jobs performed under this Agreement. The contribution of the Environmental Technologies and provision of technical assistance by Parent and Sub hereunder shall be done at their actual costs.

2.2 Contribution by Newco. Newco shall be entitled to enter into this Agreement and participate in the Venture by advancing to Sub (or, at Sub's option, to Parent) the sum of Two Hundred Fifty Thousand Dollars ($250,000) for which Sub shall issue the Debenture.

## Section 3 - Convertible Debenture

3.1 Convertible Debenture. Simultaneously with execution of this Agreement, Newco shall advance $250,000 to Sub and Sub shall issue to Newco a Debenture in the form attached as

Exhibit A to this Agreement, the terms and conditions of which are incorporated herein by reference.

3.2 Second Convertible Debenture. In the event that Newco desires to extend the Territory, as defined herein, to include the State of Indiana at any time during the first 12 months of this Agreement, Newco shall have the right to advance to Sub an additional $250,000 for which Sub will issue a second convertible debenture, upon substantially identical terms and conditions to the Debenture (the "Second Convertible Debenture"). Upon issuance of the Second Convertible Debenture, the definition of "Territory" for purposes of this Agreement shall mean the States of Illinois and Indiana.

## Section 4 - Division of Net Profits

4.1 Division of Net Profits. The Net Profits received by Sub from the commercial application of the Environmental Applications shall be divided as follows during the term of this Agreement:

(a) To the extent Net Profits are generated through projects, contracts or other business opportunities undertaken by Sub within the Territory (as defined at the time a job is secured) as a direct result of referrals by Newco, Net Profits shall be

divided fifty percent (50%) to Sub and fifty percent (50%) to Newco.

(b) To the extent Net Profits are generated through projects, contracts or other business opportunities undertaken by Sub outside the Territory (as defined at the time a job is secured) as a direct result of referrals by Newco, Newco shall receive the greater of two percent (2%) of the Gross Revenues or ten percent (10%) of Net Profits received from the particular opportunity.

(c) To the extent Net Profits are generated through projects, contracts or other business opportunities undertaken by Sub within the Territory (as defined at the time a job is secured) as a result of referrals obtained by parties other than Newco (including Sub and Parent), Newco shall receive the greater of two percent (2%) of Gross Revenues or ten percent (10%) of Net Profits received from the particular opportunity.

4.2 Payments. Payments under Section 4.1 shall be made within 30 days following the end of each of Sub's fiscal quarters and shall be accompanied by a statement showing the calculation of Gross Revenues and Net Profits and such other information and in such detail as the Management Committee shall determine.

## Section 5 - Management

5.1 Management Committee. Immediately upon execution of this Agreement, the parties shall form a Management Committee, which committee will oversee the operations of the Venture. Sub and Newco shall each appoint an equal number of representatives to the Management Committee and those representatives shall agree on one outside member who shall act as an arbitrator in the event that the parties cannot agree on matters brought to the Management Committee. Initially, each party shall appoint two representatives to the Management Committee. For purposes of making decisions, a majority of members of the Management Committee must be present at a meeting (whether in person or by telephone), and the decision of a majority of members of the Management Committee present at a meeting shall control. The Management Committee and Newco (or their duly appointed representatives) may develop other rules and procedures for the organization and conduct of its meetings if it deems necessary. The Management Committee and Newco (or their duly-appointed representatives) shall have the right to inspect the books and records of Sub pertaining to the Venture and to review the calculations of Gross Revenues and Net Profits.

5.2 Conflict of Interest. The parties hereby undertake to use their best efforts to act at all times in the best interest of the Venture. Whenever Sub, Newco, or one of its officers,

directors, shareholders or affiliates, or any member of the Management Committee, has, directly or indirectly, any interest or duty which conflicts or may conflict with the interest of the Venture, it shall forthwith disclose the same to the Management Committee in writing.

## Section 6 - Nondisclosure

6.1 Newco acknowledges that the Environmental Technologies are proprietary and the licensed property of Parent and Sub. Newco further recognizes that in the course of performance of this Agreement, it may become aware of certain information comprising the proprietary property, trade secrets and confidential information of Sub and Parent. Newco agrees that it shall not divulge or communicate to any other person any of the proprietary information, trade secrets or confidential information relating to the Environmental Technologies and/or the technical processes utilized by Sub and Parent. This covenant of nondisclosure shall survive termination of this Agreement. The foregoing covenant shall not apply to any information which is generally available from sources outside of Sub or Parent and is in the public domain. Newco agrees to execute and deliver to Sub and Parent a Nondisclosure Agreement in the form attached as Exhibit B.

## Section 7 - Operation of the Venture

7.1 Operations. All operations of the Venture shall be conducted by Sub under the guidance of the Management Committee; provided, however, that Sub may, at the Management Committee's direction, subcontract operations to be conducted by Newco, Parent or a third-party operator. All revenues and expenses of operations of the Venture shall be collected and paid by Sub.

7.2 Equipment and Technical Systems. In the event that any operations of the Venture are performed by an entity other than Sub pursuant to subcontract, Sub shall provide technical assistance as provided in Section 2.1. To that end, Sub may authorize a subcontractor the right to utilize Sub's Equipment and Technical Systems to the extent authorized by the Management Committee. Following the completion of any job in which a subcontractor is engaged as an operator, Sub shall have the right to order the return of any of its materials used in such job, including equipment and chemical solutions. Sub agrees to use its best efforts to make such equipment and chemical solutions available to a subcontractor as soon as possible following notification of the start date of any job.

7.3 Risk of Loss. Unless otherwise determined by the Management Committee, Sub shall operate all jobs of the Venture.

If another entity is selected to subcontract the work (including Newco and Parent), such entity shall bear all risk of loss for any equipment, chemicals, technical information and the like which may be in its possession at any time under the Agreement. All operators shall be required to maintain adequate insurance and performance and completion bonds to protect against the risk of loss, in such amounts as Sub may reasonably request to adequately secure Sub's property. Newco agrees that it shall not mortgage, pledge, encumber, or endanger any of Sub's or Parent's property contributed under this Agreement.

7.4 Standard of Care. - The Venture shall maintain an acceptable standard of operation and shall perform all services in a good and workmanlike manner, in compliance with all applicable laws, rules and regulations, and shall obtain any necessary operating permits required to perform work hereunder.

7.5 Ideas and Inventions. The parties will benefit on an equal basis on all ideas and inventions which are generated through the Venture; provided, however, that this shall not apply to any refinements or adaptations on ideas and/or inventions that existed prior to the date of this Agreement.

## Section 8 - Representations and Warranties

8.1 License. Parent and Sub, jointly and severally, represent and warrant that they are duly authorized and licensed to utilize the Environmental Technologies as provided herein and shall maintain the revocable license in favor of Sub to use the Environmental Technologies during the term of this Agreement.

8.2 Business of Sub. Parent and Sub represent and warrant that Sub has been incorporated for the sole purpose of entering the Venture, and shall engage solely in the business of the Venture and only with respect to jobs either secured by efforts of Newco or within the Territory.

## Section 9 - Term and Termination

9.1 This Agreement shall terminate upon the happening of any of the following events:

(a) Newco shall redeem the Debenture pursuant to Section 1(b) thereof.

(b) Newco shall exercise its conversion right under Section 5(b) of the Debenture.

## Section 10 - Other Territories

10.1 Newco Right of First Refusal. In the event that Sub or Parent receives a bona fide offer from any third party for the exclusive rights to market or utilize the Enzyme Technologies in any other state within the United States, Newco shall have a right of first refusal to obtain such rights. Sub and/or Parent shall notify Newco of the existence of any third party offer within five days of receipt of said offer, and Newco may exercise its right of first refusal by giving written notice to Sub and paying the same consideration offered by the third party within 20 days following Sub's or Parent's receipt of the third-party offer. In the event that Newco fails to exercise this right of first refusal within the time period set forth herein or notifies Sub that it will not exercise its right, such right of first refusal shall cease and Sub or Parent shall be free to convey such rights to any third party upon the terms and conditions contained in the original offer. This right of first refusal applies only to offers made by third-parties for exclusive rights to market or utilize the Enzyme Technologies on an exclusive basis within one or more territories, similar to the rights Newco has acquired under this Agreement.

10.2 Indiana. In order to provide Newco with adequate opportunity to purchase the Second Convertible Debenture if desired, Sub agrees, during the first 12 months of this Agreement,

to give Newco prior notice of any job utilizing the Enzyme Technologies which Sub or Parent propose to undertake in the State of Indiana.

## Section 11 - Remedies

11.1 Remedies. The parties acknowledge that a breach of this Agreement (including a breach of Newco's covenant in Section 6.1) may cause substantial injury to Sub and/or Parent or Newco which may be irreparable and/or in amounts difficult or impossible to ascertain. Accordingly, the parties agree that in the event of any breach of the material terms of this Agreement, the parties shall have, in addition to all other remedies, the right to injunctive and other equitable relief.

## Section 12 - NAT and GSI Guarantee

12.1 Guarantee of Debenture. In consideration of Newco entering into this Agreement for the benefit of Sub and Parent, NAT and GSI, jointly and severally, hereby guarantee Newco the repayment of the Debenture pursuant to the repayment terms set forth in Section 1 thereof. NAT's and GSI's guarantee is limited to repayment of the Debenture at maturity or pursuant to redemption under Section 1(b) of the Debenture.

## Section 13 - Agreements of GSI

13.1 Stock Ownership of NAT. GSI represents and warrants to Newco that it is the record and beneficial owner of such number of shares of common stock of NAT to enable GSI to perform its agreements herein.

13.2 Options to Purchase NAT Stock. GSI hereby grants Newco the option to purchase (a) 200,000 shares of NAT common stock at $7.00 per share, exercisable within 12 months from the date of this Agreement, and (b) 200,000 shares of NAT common stock at $11.00 per share exercisable at any time within 18 months from the date of this Agreement (the "Options"). The Options may not be transferred and may only be exercised by Newco. The Options shall be exercised by written notice to GSI stating the number of shares with respect to which it is being exercised and accompanied by payment of the full amount of the option price of the number of shares desired by a check payable to the order of GSI. The exercise date of an Option shall be the date upon which the notice of exercise is received by GSI with full payment of the exercise price. The Options granted hereunder shall remain in full force and effect for the terms stated herein, regardless of any earlier termination of this Agreement under Section 9.

13.3 Agreement to Exchange NAT Stock for NAE Stock. Pursuant to the Debenture, Newco has the right under Section 5 to convert the Debenture into shares of stock of NAE. While the parties contemplate at the date of this Agreement that the shares of NAE will subsequently become exchangeable into shares of NAT by virtue of merger and will be then publicly traded on the NASDAQ system, in the event that such NAE shares owned by Newco have not been exchanged or are not exchangeable into shares of NAT, then GSI agrees to transfer shares of NAT to Newco in exchange for shares of NAE upon the following terms: in exchange for all shares of NAE owned by Newco as a result of conversion of the Debenture under Section 5 of the Debenture, GSI shall transfer to Newco such number of shares of NAT Stock as would have been issuable to Newco under Section 5(a) of the Debenture if the Debenture had provided for conversion into shares of NAT stock determined as of the date on which Newco converts its stock into shares of NAE.

## Section 14 - Miscellaneous

14.1 Further Assurances. Each of the parties agrees to take such action and execute and deliver such additional documents as may be reasonably necessary or appropriate to effectuate the terms of this Agreement.

14.2 Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Illinois, without giving effect to the principles of conflicts of law.

14.3 Notices. All notices, consents and other communications required or permitted under this Agreement shall be in writing, and shall be (a) delivered personally, (b) mailed by first class certified mail, postage prepaid, return receipt requested, or (c) sent by a nationally-recognized express courier service, postage or delivery charges prepaid, to the parties at their respective addresses as stated on the first page of this Agreement or in any supplement attached hereto. Notices to any corporate party shall be given to the attention of its President. Notices may also be given by prepaid telegram or facsimile and shall be effective on the date transmitted if confirmed within 24 hours thereafter by a signed original sent in the manner provided in the preceding sentence. Any party may change its address for notices by giving notice of a new address to each other party in accordance with this Section.

14.4 Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to its subject matter and supersedes all earlier and contemporaneous oral and written communications and agreements with respect to the same



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subject matter. This Agreement shall not be amended except in a written document signed by all of the parties.

14.5 Binding Agreement. This Agreement shall bind, benefit and be enforceable by or against the parties, their successors and assigns.

14.6 Execution. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original hereof, and it shall not be necessary in making proof of this Agreement to produce or account for more than one counterpart hereof. The parties may execute facsimiles of this Agreement and such will be considered as having the same effect as an original document. Original copies of this Agreement will also be circulated for signatures by the parties.

14.7 References. All words used in this Agreement shall be construed to be of such number and gender as the context requires or permits. Unless a particular context clearly provides otherwise, the words "hereof" and "hereunder" and similar references refer to this Agreement in its entirety and not to any specific section or subsection. For purposes of this Agreement, "including" means "including without limitation."

14.8 No Waiver. No waiver with respect to this Agreement shall be enforceable unless in writing and signed by the party against whom enforcement is sought. No failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy by any party, and no course of dealing between or among any of the parties, shall constitute a waiver of, or shall preclude any other or further exercise of, any right, power or remedy.

14.9 Severability. If any portion of any provision of this Agreement or its application is construed to be invalid, illegal or unenforceable, then the other provisions and their applications shall not be affected thereby and shall be enforceable without regard thereto.

14.10 Required Approvals. Each of the parties represents and warrants that it has obtained all necessary and required approvals to enter into and perform this Agreement, and this Agreement has been approved by appropriate action of its Board of Directors.

14.11 Headings. The Section and paragraph headings of this Agreement are for convenience of reference only and do not form a part of the terms, conditions and covenants of this Agreement or give full notice thereof, and therefore shall not be

[Signature page continued]

NORTH AMERICAN TECHNOLOGIES, INC.

By: _____
Executive Officer

GOLD SPINNERS INTERNATIONAL, INC.

By: _____
Executive Officer

Exhibit A - Debenture
Exhibit B - Nondisclosure Agreement